

IT OUTSOURCING CONSIDERATION TO MEET COMPANY'S BUSINESS NEEDS

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ABSTRACT

Article discusses the needs of information technology that can be fulfilled in two ways, which are using sources in internal company and outsourcing to build information technology in order to meet the business needs of company. If using outsourcing, company management must consider the cost problem and is there any effective contract. That is what cause the need of evaluation on company decision making process.

Keywords: *outsourcing, business, company*

ABSTRAK

Artikel membahas kebutuhan teknologi informasi yang dapat dipenuhi dengan dua cara, yaitu menggunakan sumber daya di dalam perusahaan sendiri dan menggunakan sumber daya eksternal untuk membangun teknologi informasi guna memenuhi kebutuhan bisnis perusahaan. Bila sumber daya eksternal perusahaan (outsourcing) yang digunakan, manajemen perusahaan harus memperhatikan masalah biaya yang timbul dan apakah kontrak yang ada efektif. Hal itulah yang menimbulkan kebutuhan dilakukannya evaluasi atas proses pengambilan keputusan perusahaan.

Kata kunci: *outsourcing, bisnis, perusahaan*

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INTRODUCTION

In addressing quality and resource issues, many institutions engage independent outside professionals to perform work in the information technology of companies. These arrangements are often called “Information technology outsourcing” or “Information system outsourcing”. Outsourcing may be beneficial to an institution if it is properly structured, carefully conducted, and prudently managed. To do this, management should ensure that there are no conflicts of interest and that the use of these services does not compromise independence.

Examiners should assess whether the structure, scope, and management of outsourcing arrangement adequately evaluate the institution's system of internal controls. They should also determine whether or not directors and senior managers have fulfilled their responsibilities for maintaining an effective system of internal controls. There are two alternatives for examining best uses of internal and external resources as follow.

1. Look at all IT activities within an organization. This includes the opportunity cost of staff time and ensures the best use of resources in light of the relative importance of other IT activities. A project intended for outsourcing may in fact use internal resources more effectively. In order to free up internal resource time, a different, unplanned in-house service may need to be outsourced.
2. Evaluate a specific project or process to determine if internal or external resources would perform the task most effectively.

DISCUSSIONS

Identifying Goals and Needs

In order to make an effective decision, one of the first steps is to identify the needs of the organization and understand why outsourcing may or may not be appropriate. Reasons to use external resources are as follow.

1. To have access to technology, skills, and knowledge not internally available.
2. To improve business processes and enable organizational change.
3. To provide needed short-term services without adding to ongoing operational costs.
4. To focus internal IT resources on core strategic plans and projects.

Reasons to use internal resources are bellows.

1. To retain skilled personnel who are able to respond directly to company needs.
2. To obtain needed services at lower overall costs.
3. To take advantage of employees’ unique insight into a project or the company’s goals.
4. To have ownership and control over resource and personnel assets.

Establishing Analysis Criteria

Often areas that are poorly understood or projects that use unfamiliar technologies are targeted for outsourcing. This puts an added burden on staff to manage a contract and a vendor dealing with technologies that they do not understand. If an activity is not understood, how can the company establish appropriate success measures for the vendor, verify vendor results, or take over after implementation? It may be worthwhile to spend the time and money to train staff on new technologies, so that familiar, well-understood, and well-measured activities can be outsourced, making contract management much easier.

Once it has been determined that the use of external resources may be an option that would meet business needs, a cost-benefit analysis should compare both the internal and external resource options. A major problem with external and internal staffing decisions happens when the decisions are based on a lack of understanding of expected benefits. DeLoitte and Touche survey found that actual outsourcing contracts did not meet user expectations in any of the five areas surveyed.

1. Vendor expertise.
2. Better focus on core competencies.
3. Improved quality/delivery of IT services.
4. Reduced costs.
5. Improved transition to new technologies.

Chances for a successful outsourcing decision are maximized when the decision fully incorporates all known costs and benefits of internal versus external resources according to the type of activity under consideration and the contract is negotiated and managed effectively. A final consideration regarding internal versus external analysis criteria is the importance of recognizing the full costs of the external vendor. Many times costs are not explicitly seen, but are accounted for in the fees charged by the vendor. The recognition of these embedded costs is necessary in order to make a consistent comparison between options.

Cost-Benefit Analysis

Cost-benefit analysis enables decision makers to account for the full costs and benefits of outsourcing and insourcing options. The analysis helps to prove or disprove whether a project supports company goals and outcomes in the most effective manner. Its value stems from its inclusion of both quantitative and qualitative measures. A simple cost comparison will not show all of the true benefits or costs of a staffing decision, although quantified dollar costs should always be included in the analysis.

Once company needs and goals have been established, a thorough cost-benefit analysis should be conducted. Organizations must identify all internal and external

service costs and benefits to make an effective and reasonable comparison. Quantitative and qualitative measures are essential to determine the full impact of the staffing choice. Prioritizing objectives and identifying measures are essential to project success because they influence the costs and benefits of staffing decisions. The staffing decision is based on the opportunity cost of using internal resources and the identification of company IT needs and costs. It also relies on an understanding of the complete costs of an outsourcing engagement. Some potential costs to consider are outlined below.

1. Costs of Outsourcing
 - a. Contract management costs to the company.
 - b. Effectiveness costs from lack of understanding of project objectives.
 - c. Higher project costs as organizations may experience greater overall project costs in order to access necessary skills and expertise that are unavailable internally.
 - d. Higher costs from inadequately defined requirements.
2. Costs of Using Internal Resources
 - a. Opportunity costs of staff time.
 - b. Ongoing costs for additional full time equivalent (FTE) employees.
 - c. Unpredictable costs as overtime occurs and as employees spend varying amounts of time month-to-month working on the project.
 - d. Effectiveness costs if in-house resources are not sufficient or skilled enough for the project.

The key to a successful staffing decision is the cost-benefit analysis. Having a secure understanding of in-house operational cost, as well as an understanding of the true, total cost of an outsourcing engagement will enable the company to make the best decision. Project success must always come from its ability to perform the desired service or activity. Identifying the best option for obtaining project success also stems from an understanding of the project processes: do you want the project done better, faster, or cheaper? The staffing decision is based upon the best use of company resources, according to its needs and priorities.

Sample List of Cost-Benefit Criteria

Quantitative Direct Costs
Personnel costs
Maintenance/licenses
Training
Contracts (e.g., if some maintenance/other peripheral services will still be performed by other vendors)
Telecommunications charges

New equipment costs
New software costs
Rent
Utilities
Travel
Quantitative Direct Benefits
Dollar value of staff time saved
Dollar value of new operating efficiencies (e.g., number of additional licenses to be processed)
Quantitative Indirect Costs
Administrative overhead
Divisional overhead
Costs to other companies or citizens
Contract administration costs
Quantitative Indirect Benefits
Service improvements to citizens
Support of state/company architectures
Flexibility of solution
Qualitative Project Benefits and Costs
Availability
Quality of service
Impact on staff, other companies, citizens
Legal environment
Security
Sensitivity
Planning time
Project time
Operational risk
Technology risk
Relationship risk

Decision Flowchart

To identify whether or not outsourcing is appropriate, several background questions must be answered. Figure 1 illustrates the analysis process that helps to ascertain if outsourcing is an option, or if in-house staff represents the best use of company resources.

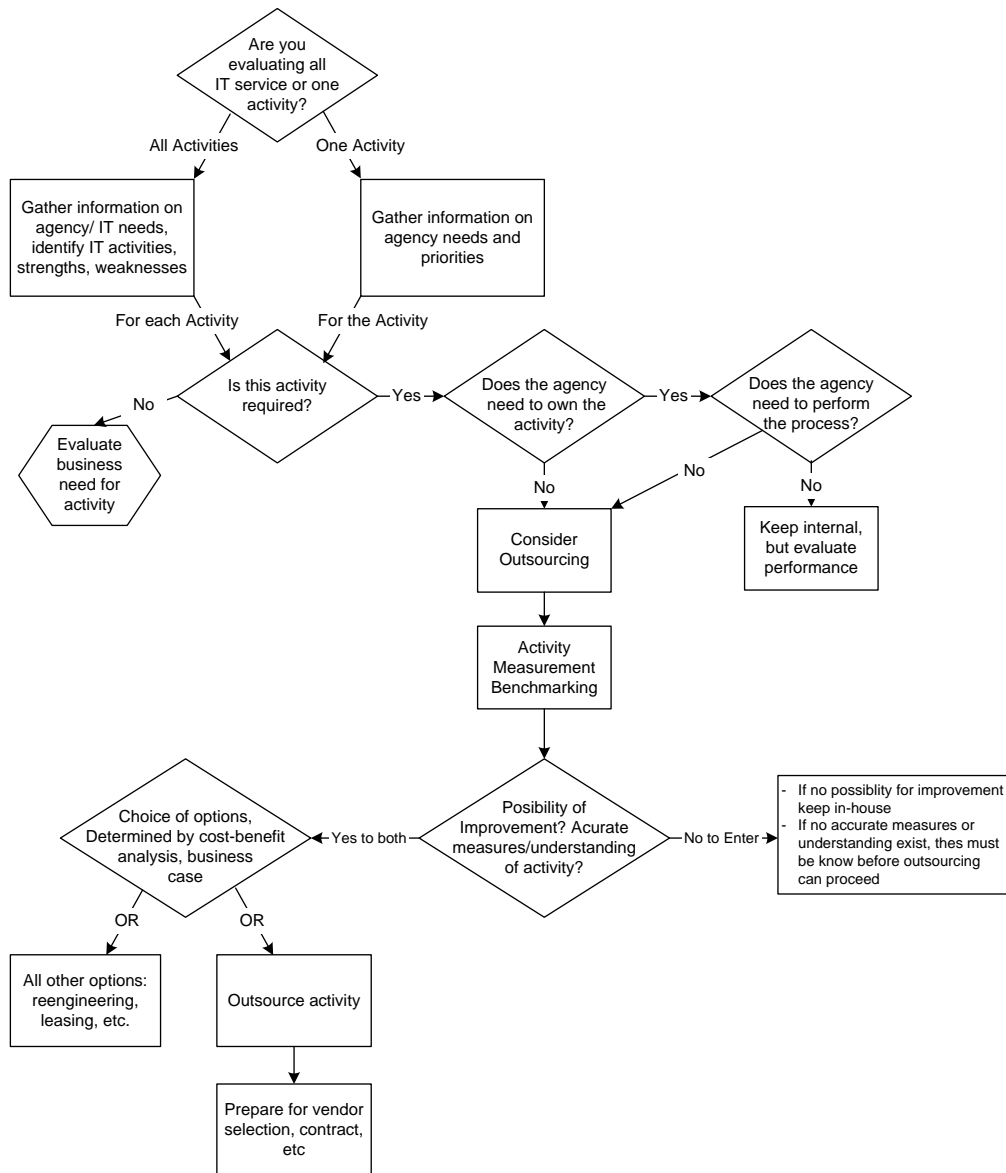


Figure 1 Outsourcing Decision Flowchart

Measurements

Measures are crucial to the success of a project, whether using internal or external resources. Quantifying the costs of providing IT services in-house and the vendor service provision costs provides a level playing field for making the most well-informed cost comparison possible. Measures also quantify the ability of both the internal and the external resources to meet end-user needs. Some measurement starting points are bellow.

1. Service levels.
2. Price/performance benchmarks.
3. Customer satisfaction surveys.
4. Inventory of IT skills.
5. Infrastructure and tool assessments.
6. Opportunities for improvement.

Analyze the measures for strengths and weaknesses, and evaluate alternative options for making changes. The right measurements are essential for evaluating options available to the company. Measures must be accurate and verifiable while measuring real areas of end-user need or IT effectiveness.

Staffing

Resource issues are an important consideration in this cost-benefit analysis. The need to avoid pressuring already overworked resources may be an important consideration in the decision process. Alternatively, it may be important strategically for IT resources to be involved in a particular process because of a resource's impact on company service delivery. Understanding key staffing questions will enable the company to identify previously unconsidered costs or benefits.

Business Value

The overall reason why companies are examining costs and benefits of using internal or external resources is to determine the best possible use of limited company resources. Deciding that outsourcing is a viable option is usually because of one of two business value reasons.

1. If it is determined that an external service provider can meet all business requirements at a cost lower than they can be provided by internal resources. If benefits are gained that cannot otherwise be achieved.
2. It is the second point that provides the most scope for outsourcing cost-benefit analysis, as the lower cost argument is difficult to achieve, given the prevalence of soft costs in outsourcing arrangements and the fact that qualitative costs and benefits may be lost by comparing strict dollar values. The intangible "business value" concept must, however, still be pinned down to specific reasons and justifications.

After completing a cost-benefit analysis, the company may still consider that an alternative staffing acquisition method is better than the one shown by the analysis. If this happens, the appropriate weights and concerns have not been shown in the analysis. Establishing project objectives, outcomes, and primary staffing considerations should provide the company with enough information to show a cost-benefit analysis that provides the best business value outcome. Using both qualitative and quantitative measures ensures that business value is accounted for in the cost-benefit analysis.

CONCLUSION

The decision whether to use internal or external resources must be made by:

1. Understanding the needs and constraints of the organization.
2. Identifying and prioritizing the goals of the project.
3. Identifying and quantifying the appropriate measures for internal and external operations.
4. Conducting a cost-benefit analysis of the internal and external alternatives.

The cost-benefit analysis requires identifying, weighing, and evaluating all costs and benefits associated with an IT project. After the analysis is completed, compare and total all of the information gathered. If the costs outweigh the benefits for outsourcing, insourcing is the preferred option, and vice versa. The completed cost-benefit analysis will show why the company has selected a staffing alternative, and what the most important factors in that decision-making process were. The measurements and objectives that explain how the decision supports the company's business objectives in the most effective manner possible will be explicit.

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